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USSR–East Asia: Moscow Realigning Its Policy

An Intelligence Assessment

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May 1990

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USSR–East Asia: Moscow Realigning Its Policy

An Intelligence Assessment

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USSR–East Asia: Moscow Realigning Its Policy

Key Judgments

Information available as of 29 May 1990 was used in this report.

Soviet policy toward East Asia is shifting to a strategy that emphasizes improving relations with non-Communist countries, even at the expense of traditional clients like Vietnam and North Korea, and enhancing security through regional arms control agreements. Several factors have contributed to this new approach—including the new pragmatism of Soviet foreign policy worldwide, a mounting awareness of the need to build lucrative relationships with the economically dynamic countries of East Asia, and the desire to avoid an arms race or other forms of military competition with the United States

We expect Moscow to focus primarily on improving relations with Japan and South Korea in hopes of reaping economic benefits and playing a larger role in regional affairs. The USSR's success in expanding economic ties to those countries will be limited until it allocates massive resources to spur the development of Siberia and the Soviet Far East and implements a number of domestic reforms to make foreign investment in the struggling Soviet economy more attractive. Implementing these reforms will take many years under the best of circumstances

China. The normalization of Sino-Soviet ties is the most important success that Gorbachev has achieved thus far in the region. Chinese Premier Li Peng's recent visit to Moscow showed that differences on key issues—for example, how to settle the conflict in Cambodia—will not hamper cooperation in other areas, especially in the economic sphere. Although Gorbachev will try to move the relationship further ahead, his success will depend largely on whether the Chinese allow their distaste for his political reforms to affect the relationship. The Soviets' main objectives are closer party contacts, a military-to-military dialogue of some kind, and a marked increase in trade and other forms of economic cooperation. (C NF)

Japan. A Soviet decision to make improved relations with Tokyo a top priority may prompt a major initiative later this year to set the stage for Gorbachev's planned visit to Tokyo in 1991. In our view, such a gesture is much more likely now than it was a year ago, given the normalization of Sino-Soviet ties an[redacted]

Moscow is still trying to defuse the territorial dispute by considering compromises it has been unwilling to make up to now, such as demilitarizing the disputed islands or leasing them back to the Japanese. But Gorbachev may be prepared to consider returning all the islands if the Japanese Government shows a willingness to make significant

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economic and security concessions.

The Two Koreas. Moscow probably will agree to establish diplomatic relations with South Korea later this year. Gorbachev's decision to meet with South Korean President Roh in early June underscored his determination to give increased weight to relations with Seoul despite North Korean objections. Moscow has come to regard economic relations with South Korea as a key part of the answer to the USSR's problems in acquiring inexpensive consumer goods, capital, and technology for its eastern provinces. At the same time, the Soviets are showing increasing impatience with North Korean leader Kim Il-song but are likely to continue to provide him with military assistance to avoid a total rupture of relations.

The establishment of formal diplomatic relations with Seoul almost certainly would make it easier for Moscow to acquire South Korean technology and capital. Moreover, it is conceivable that, over the long run, public sentiment in the South would strengthen for Korean neutrality and for a withdrawal of US forces from the peninsula if the Soviets' arms deliveries to North Korea declined as their relations with South Korea normalized and economic ties expanded. We estimate that, even without full diplomatic relations, Moscow's trade with the South will surpass Soviet–North Korean trade within three to five years.

Southeast Asia. Moscow's Hanoi connection has become less important now that the Soviets have expanded their contacts with the non-Communist countries in the region and have improved relations with Beijing. They are likely to put more distance between themselves and the Vietnamese this year by reducing both military and economic aid to Hanoi.

Although Moscow's arms control initiatives aim to reduce the US military presence in East Asia and the Western Pacific, the Soviets do not seek to challenge US naval preeminence in the region. The recent cuts in Soviet military forces at Cam Ranh Bay in Vietnam suggest a belief that unilateral force reductions are the best way to convince the United States

and non-Communist Asian states that the Gorbachev regime is serious about deemphasizing its military role in the region and focusing instead on political and economic ties. Moscow may even see some merit in a more dramatic gesture—for example, a complete withdrawal from Cam Ranh Bay in an effort to prompt Manila and other Asian capitals to press the United States to reduce its forces in the area. The Soviets also could demilitarize the contested Northern Territories or cut their air and naval forces deployed on Sakhalin or elsewhere near Japan to improve the atmosphere for Gorbachev's planned visit to Tokyo

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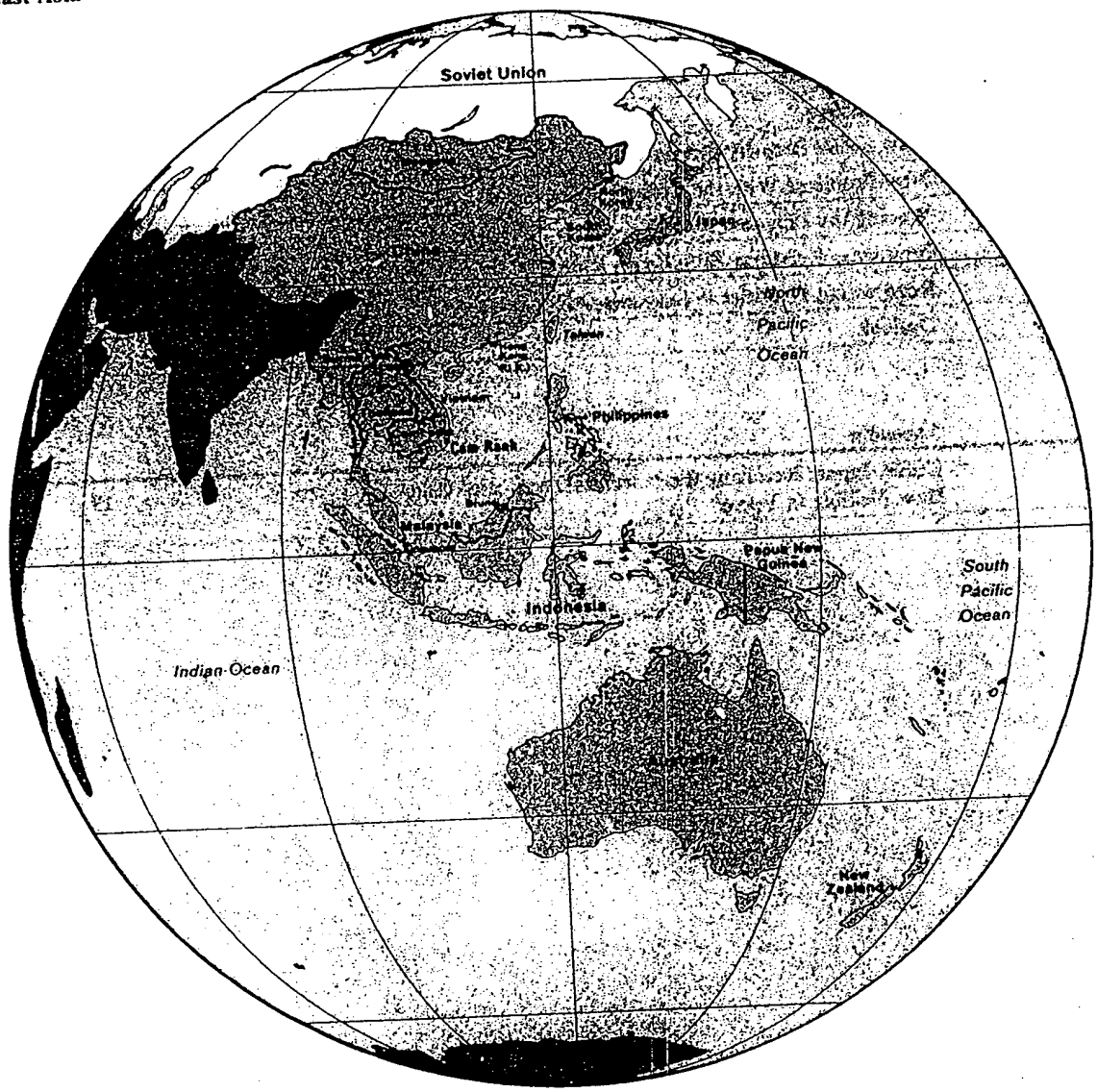
Figure 1
East Asia



Boundary representation is not necessarily authoritative

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USSR–East Asia: Moscow Realigning Its Policy

Introduction

The Soviet leadership has recently conducted a major review of its policy in East Asia, [redacted] politburo member Yakovlev, head of the International Policy Commission of the CPSU Central Committee, sharply criticized Soviet trade officials and military leaders in November 1989 for not developing more effective programs and policies for the region. A report in *Pravda* added that Soviet bureaucratic inertia and opposition to "new thinking" were largely responsible for the cool Asian response to President Gorbachev's "peace" initiatives and bids for expanded economic ties since his speech at Vladivostok in July 1986. We believe the review also focused on shifting to a new strategy that emphasizes improving relations with non-Communist countries, especially Japan and South Korea, and enhancing security in the Far East without challenging US preeminence there.

Several factors have contributed to this new approach. First, there is the *new pragmatism of Soviet foreign policy* worldwide. The Gorbachev leadership has not only accepted the dissolution of the Soviet empire in Eastern Europe but also has sought better relations with such staunchly anti-Communist states as South Korea, Israel, and South Africa. By the same token, Moscow now seems less concerned than in the past about preserving close ties to such old and expensive Communist clients as Cuba, Vietnam, and North Korea—relationships that could get in the way of its courtship of more useful non-Communist countries. The emphasis now is on transforming the USSR into a more traditional great power that has normalized relations with all states and on establishing its credentials as a force for peace and stability. In this way, Moscow hopes to continue to exert global influence at a time of mounting economic and political problems at home.

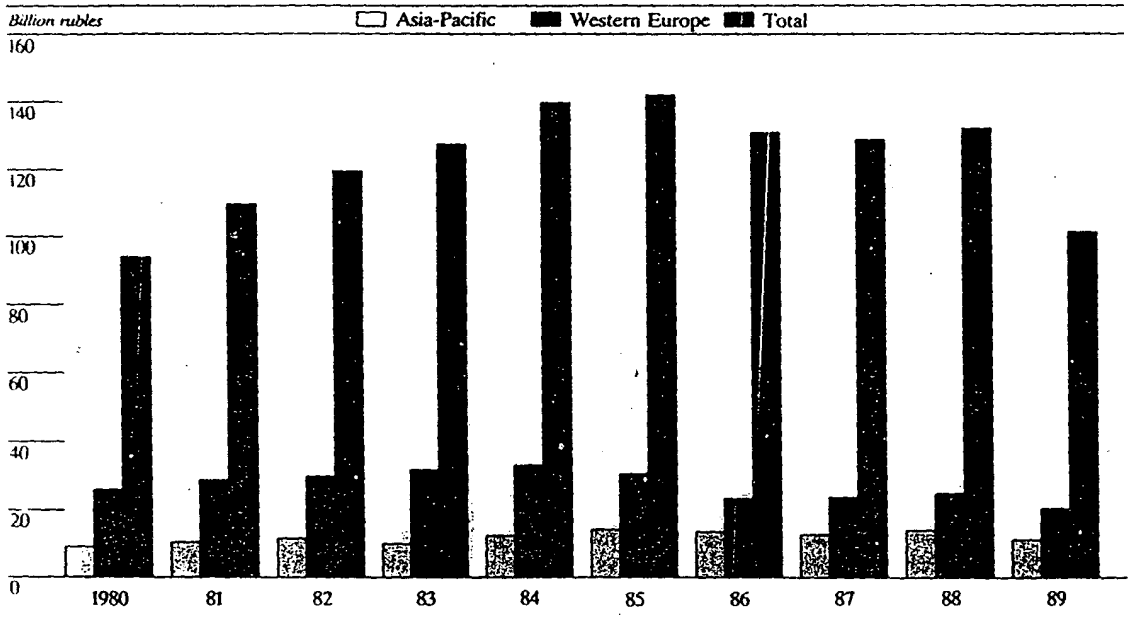
Economic considerations are an important factor in the rethinking of Moscow's Asian policy. In the interests of strengthening the economy at home, the Soviets are more aware of the need to build lucrative relationships with the economic powers in the Far East, especially Japan and South Korea. The growing economic strength of Thailand, Singapore, Taiwan, and Hong Kong will probably also attract greater Soviet attention in the near future.

The USSR has a long way to go in boosting exports from its far eastern provinces (these accounted for only 5 percent of all Soviet exports during the mid-1980s), persuading Asians to invest in joint ventures in that part of the USSR, or otherwise reaching the point where economic links to Asian neighbors play a key role in revitalizing the economy. We believe the Gorbachev leadership will find it difficult to expand economic ties to many non-Communist Asian countries without allocating massive resources to speed up the economic development of the Soviet Far East. Moscow also needs to take action on a number of economic reforms—especially price reform, which is essential if the ruble is to become a convertible currency—to make joint ventures and other forms of investment in the struggling economy more attractive to foreign businessmen. In our judgment, implementing most of these reforms will require several years under the best of circumstances

Meanwhile, Moscow's trade with Asia-Pacific nations represents only 10 percent of all its foreign trade or slightly more than half the amount of its trade with Western Europe in recent years (see figure 2). Moreover, six clients—India, Mongolia, North Korea, Vietnam, Laos, and Cambodia—account for more than half of the USSR's trade with that part of the

[redacted]

Figure 2
Soviet Foreign Trade, 1980-September 89



world (see table). Trade with Japan, Moscow's most important trading partner in the region, has recovered from its slump during the early 1980s but remains modest for several reasons—including the drop in the world price of oil, which has reduced Soviet purchasing power, and the appreciation of the Japanese yen, which has made goods from Western Europe more attractive to Moscow than those from Japan. Soviet trade with South Korea increased from US $290 million in 1988 to over US $600 million in 1989, but as a percentage of either country's foreign trade remains insignificant.[2]

Another consideration is the *desire to avoid an arms race or other forms of military competition with the United States*. The Gorbachev leadership seems to be shifting its emphasis, seeking to enhance security in the Far East through regional arms control initiatives, instead of trying to gain military parity with the United States in the region.

Foreign Minister Shevardnadze told a US Congressional delegation in mid-January that "there will soon be no Soviet troops in Asia outside the USSR's borders." Deputy Foreign Minister Rogachev told the group that Moscow was revamping its military policies everywhere and stated that, in the Soviet Far East, they would now be based on the doctrine of "reasonable sufficiency." A deputy director of the

Soviet Trade With Asia-Pacific Nations [a]

Million rubles

	1986			1988			January-September 1988			January-September 1989		
	Exports	Imports	Total	Exports	Imports	Total	Exports	Imports	Total	Exports	Imports	Total
Total	**6,948.8**	**6,726.2**	**13,675.0**	**7,792.2**	**6,209.5**	**14,001.7**	**5,621.4**	**4,487.1**	**10,108.5**	**5,613.1**	**5,448.4**	**11,061.5**
Afghanistan	542.1	244.6	786.7	478.4	184.8	663.2	342.4	157.0	499.4	245.7	48.8	294.5
Bangladesh	49.9	17.8	67.7	52.3	21.9	74.2	25.9	15.8	41.7	45.2	12.6	57.8
India	957.6	1,233.6	2,191.2	1,128.7	1,123.3	2,252.0	823.7	830.0	1,653.7	755.2	1,086.2	1,841.4
Nepal	0.1	1.2	1.3	NA	NA	NA	NA	NA	NA	NA	NA	NA
Pakistan	37.1	47.9	85.0	43.8	72.0	115.8	35.9	58.6	94.5	49.6	45.0	94.6
Sri Lanka	12.9	12.2	25.1	0.4	7.4	7.8	0.3	3.8	4.1	0.5	5.9	6.4
Burma	1.2	20.0	21.2	0.1	0.4	0.5	0.1	0.3	0.4	0.1	0.1	0.2
Vietnam	1,318.4	294.3	1,612.7	1,393.6	388.6	1,782.2	941.0	233.0	1,174.0	927.1	336.3	1,263.4
Cambodia	114.0	8.7	122.7	117.3	13.1	130.4	96.1	9.0	105.1	94.3	9.7	104.0
Laos	62.2	5.1	67.3	74.6	11.4	86.0	53.8	7.0	60.8	56.3	10.1	66.4
Singapore	26.7	35.9	62.6	25.6	35.9	61.5	18.6	26.0	44.6	41.0	53.8	94.8
Indonesia	3.1	42.3	45.4	16.1	24.3	40.4	12.3	13.6	25.9	20.0	50.2	70.2
Malaysia	7.6	96.6	104.2	17.7	81.4	99.1	12.4	68.0	80.4	12.6	129.5	142.1
Philippines	7.4	10.0	17.4	13.3	11.3	24.6	9.6	8.0	17.6	3.7	12.6	16.3
Thailand	10.2	80.7	90.9	24.2	40.2	64.4	17.0	22.8	39.8	21.8	205.4	227.2
China	910.3	911.7	1,822.0	1,005.2	844.9	1,850.1	650.6	609.6	1,260.2	930.7	701.9	1,632.6
North Korea	757.2	450.7	1,207.9	1,062.2	539.5	1,601.7	814.1	384.1	1,198.2	684.7	408.8	1,093.5
Mongolia	1,137.5	409.9	1,547.4	1,130.8	406.2	1,537.0	866.4	266.3	1,132.7	759.5	257.7	1,017.2
Japan	979.9	2,205.4	3,185.3	1,184.2	1,950.9	3,135.1	883.9	1,463.5	2,347.4	940.2	1,498.7	2,438.9
Australia	8.2	509.1	517.3	13.9	350.0	363.9	9.4	239.5	248.9	12.6	465.3	477.9
New Zealand	5.2	88.5	93.7	9.8	102.0	111.8	7.9	71.2	79.1	12.3	109.8	122.1

[a] Soviet trade with Taiwan and Hong Kong is still handled by third countries, as was Soviet trade with South Korea before the two sides opened trade offices in early 1989. Soviet trade with South Korea rose to over US $600 million in 1989, more than double the US $290 million in 1988; trade with Taiwan jumped to US $141 million in 1989, up 314 percent from the previous year; and trade with Hong Kong (including goods that Hong Kong reexported to the USSR) amounted to US $180.4 million during January-November 1989, after having reached US $190.9 million in 1988.

Oriental Insitute added that Moscow now regards the regional presence of the US Navy—excepting its size and nuclear strike capability—as a "stabilizing" influence [redacted]

[redacted]

New Soviet Security Proposals

As part of their new, less militant diplomacy, the Soviets have made a major effort to establish themselves as a "good neighbor" by putting forward several new proposals on Asian security issues. They are trying harder to engage both Tokyo and Washington in a diplomatic dialogue on Asian security questions, especially naval arms control discussions. To that end, the Soviets have announced the withdrawal of most of their air assets from Cam Ranh Bay in Vietnam [redacted] they also have prepared a new package of Asian confidence-building measures (CBMs) designed to ease the United States into naval arms control talks.

The new package, spelled out by Rogachev in January, combines new ideas with older initiatives. The most significant new wrinkles are:

- A bilateral exchange of views with the United States on reducing regional naval forces, including elaboration of further CBMs. Earlier Soviet proposals for limits and reductions in naval forces had called for multilateral talks between the "main naval powers."

- A proposal to establish principles for step-by-step reductions in US and Soviet conventional forces down to a level of reasonable sufficiency, starting in the northwest Pacific region.

- Applying the principle of "transparency," which Rogachev said worked well in Europe, to northeast Asia. He proposed an exchange of official data on US and Soviet forces in the region and a bilateral discussion of their doctrines pertaining to the Pacific—an idea parallel to the talks on confidence and security-building measures (CSBMs) for Europe now under way in Vienna. He added that, in this context, it could be possible to apply "open skies" to the Pacific region

Most of Rogachev's proposals are drawn from earlier initiatives put forward by Gorbachev, starting with his speech at Vladivostok in July 1986. These include:

- Not increasing nuclear weapons in the region. [redacted]
- Conventional force reductions.
- Expanding the US-Soviet incidents-at-sea agreement into a multilateral forum.
- Establishing "safety zones" for ships and aircraft.
- Obligatory notification of all naval exercises, including joint exercises with allies and invitations to regional observers.

The Soviets seem to be advancing these proposals with some serious intent, which would be consistent with their European initiatives, while jettisoning much of the propaganda baggage from the past. In fact, Rogachev failed to mention a number of earlier proposals for the Asia-Pacific region that Moscow may now consider counterproductive—for example, Gorbachev's suggestions at Vladivostok that regional alliances be disbanded and that naval operations in the Pacific Ocean, especially with nuclear-capable ships, be curtailed. In the past, the Soviet leader also had endorsed the idea of creating nuclear-free zones in the South Pacific, on the Korean Peninsula, and in Southeast Asia, and had called for an international conference on establishing an Indian Ocean Zone of Peace. Rogachev's package of CBMs also omitted previous proposals to ban antisubmarine operations in certain areas and for a mutual withdrawal from Cam Ranh Bay and the Philippines

Gorbachev wants to free resources for civilian sectors of the economy and probably views the USSR's conventional forces—one-fourth of which are deployed in its eastern provinces or with the Pacific Fleet—as an attractive target for savings in manpower and scarce materials. At the same time, the Soviets know that regional arms control and disarmament discussions are unlikely to make much progress as long as Washington remains uninterested. [redacted]

Soviet Force Reductions in the East

At the beginning of 1989, the Soviets had 75 Ground Forces divisions and 56 Air Forces regiments in the eastern USSR (the provinces east of the Urals), plus 77 major surface combatants in the Pacific Fleet. As part of the 500,000-man unilateral reductions that Gorbachev announced in December 1988, Soviet forces east of the Urals are to be cut by 40 percent by January 1991.

So far, reductions in the eastern part of the USSR generally appear to be proceeding in accordance with Gorbachev's commitment. Since 1988, the Soviets have disbanded three divisions opposite Iran and Afghanistan and one division opposite China. They also have deactivated three divisions opposite China. Ten other divisions east of the Urals appear headed for deactivation. At least 13 obsolescent Pacific Fleet ships have been scrapped. Moreover, the Soviet and Mongolian Governments have agreed that all Soviet forces will be withdrawn by the end of 1992. The Soviet commander recently stated that some units will begin leaving on 15 May.

The Soviets have moved [ ] tanks and [ ] artillery from the Atlantic-to-the-Urals zone into storage depots east of the Urals. Some equipment, however, is replacing older systems in active units.

[ ] Soviet scholars and policymakers now seem to believe that they can make better headway with US officials on Asian arms control issues by adopting an incremental approach, rather than the sweeping one of the past. By the same token, the USSR clearly hopes that the recent cuts in its military forces at Cam Ranh Bay will help convince the United States and key Asian states that Moscow is refocusing its regional efforts on political and economic ties.

New Problems With the Chinese

The normalization of Sino-Soviet relations is the most important success that Gorbachev has achieved thus far in the region, and we believe Moscow will try to move the relationship forward despite Chinese misgivings about his policies. Thus far, Sino-Soviet exchanges have proceeded without interruption, even in the face of the turmoil in China and the Soviet Union over the past year. In fact, both sides have pointed to Chinese Premier Li Peng's visit to Moscow in late April—and the six agreements signed during his visit—as proof that differences on such key issues as the conflict in Cambodia will not hamper cooperation in other areas, especially in the economic sphere. From Moscow's viewpoint, the most important developments probably are the resumption of formal party ties and military contacts and the convening of the first talks on force reductions along the 6,700-km border:

- Chinese and Soviet party delegations traded visits in 1989—the first such visits in over 20 years—and the two sides reportedly plan to hold two or three high-level party exchanges a year. A Chinese delegation headed by party propaganda chief Wang Renzhi visited Moscow in March, and a Soviet party delegation from the foreign affairs department visited Beijing in mid-April.

- The Chinese and Soviet Foreign Ministers signed an agreement on principles for force cuts and for CBMs along the Sino-Soviet frontier during Li's visit in late April. The new agreement should help speed up the deliberations of the working group on mutual force reductions created in late 1989.

- Li and Gorbachev reportedly also agreed to reciprocal visits of Soviet and Chinese military leaders, presaging the first senior military contacts since the Sino-Soviet split. Chinese observers had earlier witnessed Soviet military training on the Kamchatka Peninsula in August 1989, the first time in over 25 years that the Chinese had attended a Soviet exercise. Soviet military officers attending the second round of working-level talks on mutual force reductions, held in Beijing in February, were received by a deputy chief of the Chinese general staff and visited the headquarters of a Chinese infantry division.

Moscow also has been encouraged by other recent developments. Soviet and Chinese officials held a

Chinese Views of Gorbachev

Chinese leadership perceptions of Gorbachev have changed dramatically over the past year. Before his visit in May 1989 and the Tiananmen crackdown, Beijing regarded Gorbachev as the most accommodating Soviet leader to its interests in decades. The Chinese view was shaped by the Soviet withdrawal from Afghanistan, Gorbachev's pledges of troop cuts in Asia, and Moscow's role in nudging the Vietnamese toward a Cambodian settlement[ ]Beijing attributed these changes to Gorbachev personally, and it almost certainly wanted to reinforce his internal position and his directions in foreign policy by "rewarding" him with the first Sino-Soviet summit since Khrushchev met with Chairman Mao in 1959.

In the wake of the prodemocracy demonstrations in Beijing, Chinese leaders began critically reexamining Gorbachev's "new thinking," reportedly viewing it as putting excessive stress on political reform and the rights of the individual. The Chinese leadership has been horrified by the political changes in Eastern Europe and fears that events there will recharge internal pressures for reform[ ]

- *[ ]In late December 1989 the Chinese Politburo privately labeled him a "social democrat" instead of a "true socialist" and blamed him for "directing" the retreat of Communism in Eastern Europe.*

- *Chinese officials expect turmoil in the USSR to have a greater effect on domestic developments in China than did the changes in Eastern Europe,*

- *[*

These negative views of the Soviet leader are widely held among the Beijing leadership:

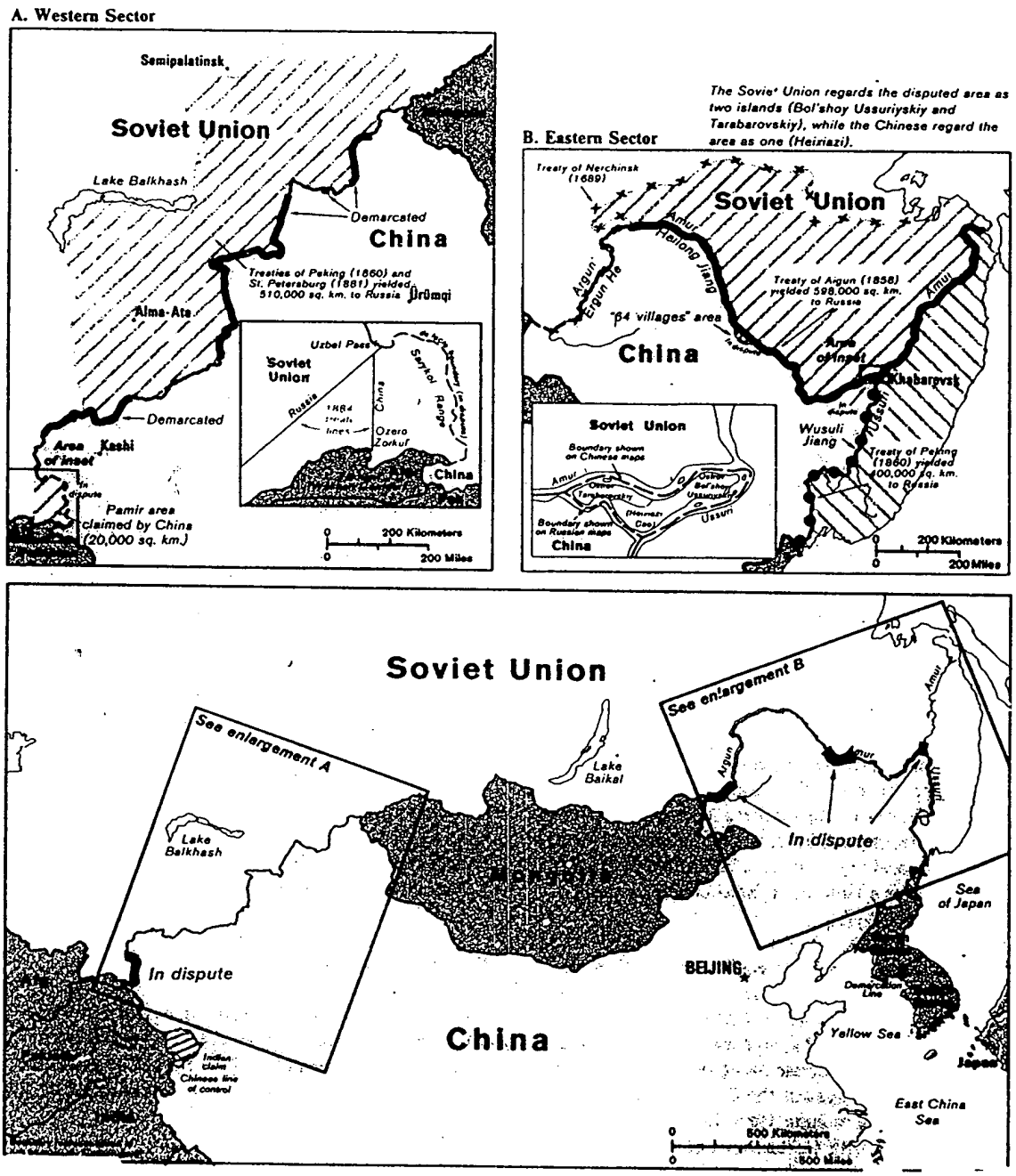
- *Deng Xiaoping, for example, recently blamed Gorbachev's reforms for the domestic crisis besetting the USSR and warned top-level Chinese officials to guard against the "serious threat" from the North, according to Hong Kong press reports.*

- *[ ]*

- *At the same time, Chinese officials have been told to maintain relations with Moscow at current levels and to avoid public criticism of the USSR or Gorbachev.[ ]*

Beijing's increasingly negative view of Gorbachev probably has led to a reassessment of what China hopes to accomplish in its bilateral relations with Moscow. Although the Chinese probably want to strengthen state-to-state contacts, calculating that such advances are necessary to avoid losing leverage with both the United States and the USSR, we envision a lukewarm embrace at best. Deep ideological differences, lingering distrust, and regional rivalry will continue to curb the rapprochement. We believe Beijing is especially interested in playing down party ties that might suggest endorsement of Gorbachev's political reforms or encourage the influx of his subversive "new thinking."

Figure 3
Sino-Soviet Border Dispute



fourth round of border demarcation talks in October 1989, and the reporting on those discussions in the Soviet and Chinese media suggested—for the first time—that the two sides are prepared to begin serious bargaining on the main sticking points—the islands at the confluence of the Amur and Ussuri Rivers in the east, opposite Khabarovsk, and the Pamirs tract in the west (see figure 3). During Li's recent visit to Moscow, the two sides confirmed that approximately 90 percent of the boundary has been settled and promised to continue working on the other areas.

The Li visit also produced four economic accords giving new impetus to the bilateral relationship. Premiers Li and Ryzhkov signed a 10-year agreement on wide-ranging economic and technological cooperation, an idea that Beijing had resisted before the Sino-Soviet summit in May 1989, and a second agreement on cooperation in space exploration. Moving beyond barter arrangements, Beijing has now also agreed to provide credits for Moscow's imports of Chinese consumer goods. The Soviets, in turn, have agreed to provide Beijing credits for buying their nuclear power facilities. The two sides reportedly also have discussed Soviet military sales to China, although no arms deals have been confirmed.

Gorbachev will have to deal with several troubling issues, however, as he tries to move Sino-Soviet relations forward:

- Beijing's strong opposition to his political reforms and their impact throughout the Communist world could yet have an adverse effect on the relationship. So far, however, the Chinese have generally refrained from publicly criticizing Gorbachev and his reforms, seeking to avoid a downturn in Sino-Soviet relations at a time when Sino-US ties remain strained.

- The Soviets must avoid getting ensnared in an internal Beijing power play. Li Peng was not the Soviets' first choice to visit Moscow; in the fall of 1989, they lobbied for General Secretary Jiang Zemin, in part because Jiang did not play a role in the crackdown against the Chinese prodemocracy demonstrators in June 1989. Li probably hopes to use his talks with Gorbachev and other Soviet leaders to bolster his domestic and international image as a statesman, and thus enhance his standing against his rivals, particularly Jiang. The Soviets have no reason to help Li. At the same time, they cannot afford to give Beijing any grounds for charging them with "interference" in its domestic affairs.

- The Chinese may hold progress on mutual force reductions hostage to a resolution of the border dispute, as they hinted in November 1989 at the first round of talks, even though officials on both sides are now saying this will not be the case. In any event, there is certain to be hard bargaining over the details of mutual troop reductions.

Thus far, Moscow has played down the internal Chinese criticism of Gorbachev's political reforms, insisting that it will not block a further improvement in Sino-Soviet ties. Soviet officials point to the continuing development of bilateral exchanges in many areas, including such delicate matters as their talks on mutual force reductions, as proof that pragmatism will prevail over ideology in the relationship. They undoubtedly recognize that Beijing cannot afford to alienate Moscow at a time when Sino-US relations remain strained, and may even worsen in the coming months.

Moscow wants to resolve the boundary dispute and, to that end, may eventually give up the islands opposite Khabarovsk in exchange for Chinese concessions in the western sector, especially in the Pamirs tract that borders both China and Afghanistan. In fact, the border demarcation talks evidently have already made significant progress; although key western areas remain in dispute, there is virtual agreement on the boundary in the northeast.

Wooing the Japanese

Soviet officials evidently see Japan as the last Western "holdout"—still wary of their regional security initiatives and lukewarm to bids for closer economic cooperation, reservations that are compounded by the

Sino-Soviet Mutual Force Reductions: Hard Bargaining Ahead

Although Beijing and Moscow have now agreed in general principle to cut their military forces along the Sino-Soviet border, hard bargaining over the details almost certainly lies ahead. The Chinese have proposed making cuts only from a relatively narrow zone along the border, but Moscow reportedly wants Beijing to make major withdrawals from northeastern China into the interior. Limiting the reductions to a relatively narrow zone would mean few, if any, changes for Chinese forces because only three poorly equipped divisions are within 100 km of the Soviet or the Mongolian border; most of the Soviet divisions deployed opposite China are within 100 km of the border.

The two sides also differ over the definition of what forces would be involved. Moscow reportedly wants reductions to cover all armed forces, but the Chinese want to limit the scope to "military forces," probably in an attempt to exclude internal troops—particularly the paramilitary People's Armed Police—from an accord

longstanding dispute over the Northern Territories (see figure 4). But they also believe that relations with Tokyo cannot be kept on the back burner indefinitely if the USSR is to play a significant role in Asian affairs:

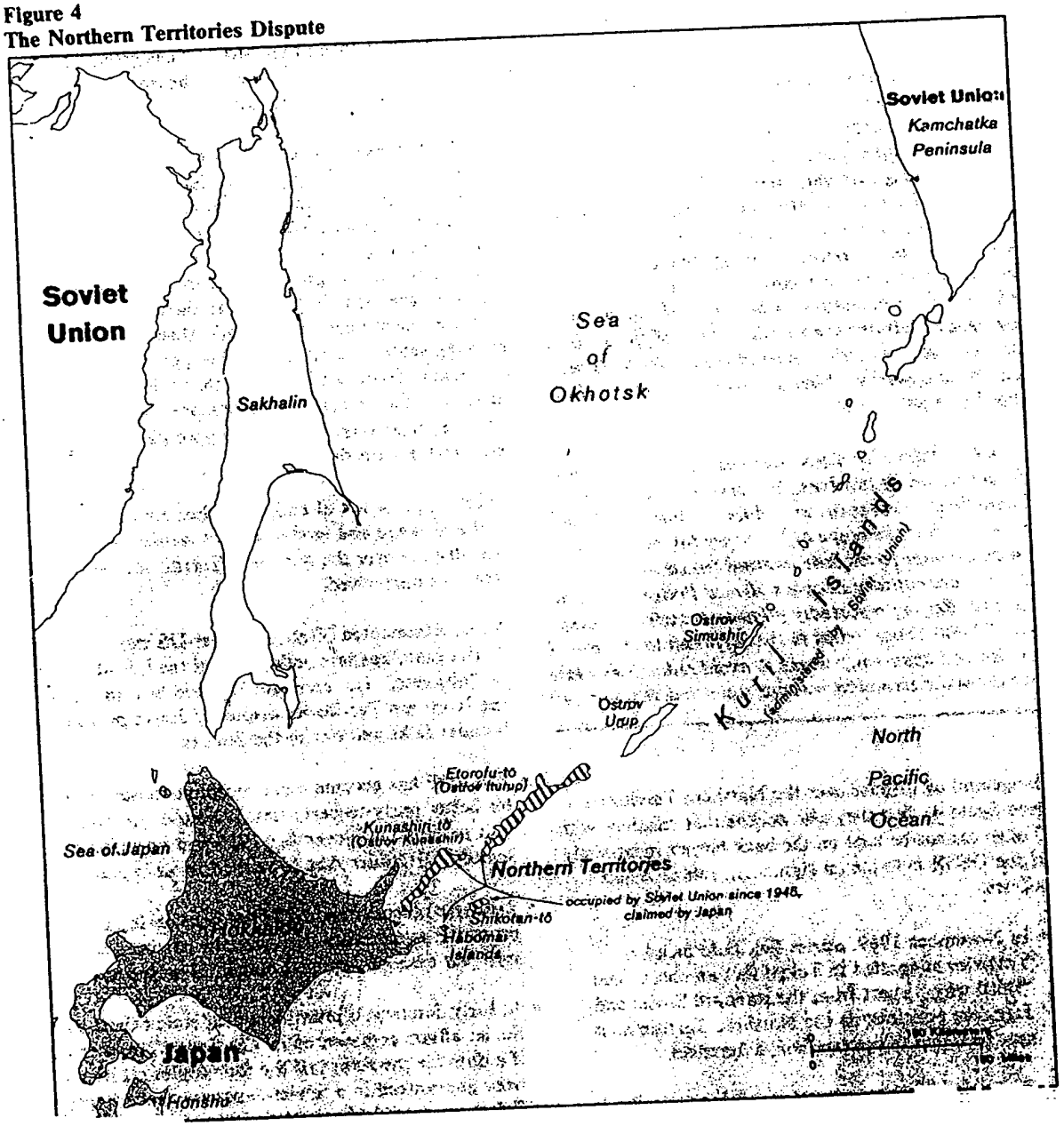
The Soviets have also put various forms of pressure on Tokyo for a more forthcoming response to their initiatives for better relations. For example, their decision to postpone Shevardnadze's visit to Tokyo, which was originally scheduled for March, was tailored to exploit the growing concern by the Japanese that they are being left behind as the rest of the world works out new relationships with Moscow. There is a growing sense in the Japanese Foreign Ministry, the custodian of Tokyo's hard line, that this may compel them to make substantial adjustments,

The Soviet approach has begun to pay some modest dividends:

- The Japanese are already providing limited technical assistance and modest export credits even while the dispute over the Northern Territories issue remains unresolved.

- In early January, a prominent academic expert on Soviet affairs commented in *The Japan Times* that, if a date for the return of the four contested islands were guaranteed in a Soviet-Japanese peace treaty, Tokyo need not insist on their immediate return or the return of all of them at once—an approach that

Figure 4
The Northern Territories Dispute



LDP strongman Shin Kanemaru and other ruling party politicians have hinted would be acceptable.

- The Foreign Ministry has agreed to put talks on arms control and disarmament issues on the agenda for Shevardnadze's visit to Tokyo. It also is considering such CBMs as an incidents-at-sea pact and a program of port calls by both navies

We have very little information on how the Soviets assess their prospects in light of these developments. Their media have commented favorably on recent instances where Japanese officials or academics have taken a "softer" approach on the matter, but without addressing the prospects for a breakthrough in relations.

A Soviet decision to make closer ties to Japan a top priority in East Asian policy might prompt a dramatic gesture in the next few months. In our view, such a gesture is much more likely now than it was a year ago, given the normalization of Sino-Soviet relations and the hint of flexibility by some in Tokyo on the Northern Territories dispute. Moscow could propose to demilitarize the contested islands or cut its air and naval forces deployed elsewhere near Japan. In fact, Soviet officials, journalists, and academics have floated several hints that Moscow may be considering one or more of these options:

- In July 1989 a Soviet Air Force colonel serving as a military analyst with the Novosti News Agency told Japanese reporters that he thought there was no need to keep troops on the contested islands. He tied their eventual withdrawal to the creation of a demilitarized zone encompassing the Northern Territories and Hokkaido.

- In October a Soviet diplomat in Tokyo told Japanese reporters that, in his opinion, the islands "do not have much strategic importance."

- In mid-May [redacted] Moscow had acted "illegally" in 1960 when it unilaterally abrogated the 1956 understanding with Tokyo whereby the Soviets had promised to return two of the disputed islands after the conclusion of a peace treaty.

Improving Relations With South Korea

Gorbachev's decision to meet with South Korean President Roh in early June demonstrates that the Soviets see both an opportunity and a need for closer ties to Seoul in order to get South Korean assistance in the economic development of the USSR's eastern provinces and that they recognize that an upgrading of the political relationship is required to expedite the process (see inset). Frustration over the lack of progress in relations with Tokyo also may be contributing to the acceleration of the dialogue with South Korea:

- The USSR and South Korea agreed at the end of 1989 to establish consular ties in 1990, the first time the Soviets have accepted an official relationship with the South Koreans. Although the two sides had opened unofficial trade offices in Moscow and Seoul earlier in 1989, they continued to handle consular matters through third countries, an arrangement that tended to slow the growth of economic ties.

- Soviet officials are now expressing interest in signing agreements with the South Korean Government to reduce tariffs and to guarantee joint-venture investments—agreements that would greatly facilitate increased trade and investment in their struggling economy, according to [redacted]

- During a news conference on 15 March 1990, Gorbachev answered a question about the possibility of Moscow and Seoul establishing diplomatic relations by saying the prospects are "good." Soviet academics earlier hinted that formal diplomatic relations are inevitable, according to South Korean and Japanese press reports, but only after trade and other forms of economic cooperation have grown.

- According to [redacted] want a more active engagement with Seoul to get money, technology, and managerial expertise for Siberia and the Soviet Far East. At the same time, [redacted] that the South Koreans are not as eager to separate politics

Soviet–South Korean Economic Ties: A Growth Stock

Only one Soviet–South Korean joint venture has been implemented to date, the Jindoo–Rus Fur Cooperative in Moscow, but the two sides have a number of projects on the planning board. Moreover, South Korean Deputy Prime Minister Yi Sung-yun told the Soviet delegation at the second conference of the Korea-USSR Economic Cooperation Council, held in Seoul at the end of March, that the government will order the Export-Import Bank of Korea to make loans to eligible projects in the USSR. The conference participants discussed more than 100 joint investment and trade deals, including:

- *Construction of a textile plant outside Leningrad by the Hyundai Business Group.*
- *Construction of electronic, footwear, and textiles plants in the USSR by the Ssangyong Corporation.*
- *Construction of soap and wood-processing factories in the Soviet Far East by the Lucky-Goldstar Group.*
- *Construction of refrigerator and videotape recorder manufacturing facilities in the USSR by the Samsung Group.*
- *Construction of a footwear plant in the Soviet Far East by the Kolon Corporation.*

They also reviewed plans for intensive talks on government-level accords to protect investments and to avoid double taxation. These talks are slated to begin in early June, and the South Koreans have also agreed to send a high-level trade mission to Moscow in June.

and economics as Moscow had earlier been led to believe.

Moscow signaled a new willingness to move forward toward full diplomatic relations during a visit by South Korean ruling party leader Kim Young Sam in March 1990 [redacted] Gorbachev countered Kim's bid for full diplomatic ties—as a prerequisite for full-scale trade relations—by stating that progress toward that goal should be in stages, but added that the process should not stand still. Politburo member Yakovlev reportedly agreed to the establishment of party ties to the Korean ruling party and said there was "no major stumblingblock" to normalizing ties. The two sides also discussed upgrading relations to the Consulate General level as an interim step. Soviet media accounts of the visit kept silent about certain points—especially Kim's meeting with Gorbachev and the possible discussion of upgrading ties—but the high-level attention that Kim received at a time when the Soviet leadership was preoccupied with the unrest in the Baltic republics and other domestic problems points up Moscow's interest in moving forward with the South Koreans.

Moscow will try to accelerate the movement toward a closer relationship with Seoul, even if relations with Japan do improve to some extent during the next year. Soviet officials might even calculate that improved relations with Seoul will put increased pressure on Tokyo to be more flexible on the Northern Territories dispute and other contentious issues.

Meanwhile, Soviet influence in P'yongyang continues to decline. [redacted] despite all the economic and military assistance that Moscow has given the Kim Il-song regime during the past 40 years. A [redacted] described the relationship as worse than it has been in years. [redacted]

Soviet contacts with Seoul account for much of the friction between Moscow and P'yongyang [redacted] early February that Moscow had told P'yongyang to face the "objective reality" that two Koreas exist [redacted] He characterized the agreement to allow Soviet and

Soviet–North Korean Economic and Military Ties

The USSR remains North Korea's primary economic partner—about 50 percent of P'yongyang's foreign trade is with Moscow, whereas only 1 percent of Soviet trade is with North Korea—and its only source of advanced weaponry. Although the Soviets refuse to provide credits for North Korean purchases of civilian goods, they are interested in expanding other forms of economic cooperation, especially deals to help the North repay its US $3.6 billion debt to the USSR. In fact, we believe they will keep their promise to help North Korea build its first nuclear power station if the North signs the safeguards agreement to the Nuclear-Proliferation Treaty (NPT).

Soviet annual military assistance to P'yongyang has been running between US $300 million and $800 million since 1985 and has included equipment that the North Koreans cannot duplicate and that China cannot provide:

- *In the last two years, the Soviets have provided [ ] launchers and [ ] missiles [ ] ground attack aircraft, and [ ] fighter aircraft.*
- *Total military aid reached roughly US $1 billion in 1988 and an estimated US $750 million in 1989.*

[ ]

[ ]

Military cooperation, however, seems to have been confined to a few coordinated naval exercises, plus air and naval visits during important celebrations. A prominent Soviet academic expert on Asian affairs reportedly stated in late April 1990 that the 1961 Soviet–North Korean Treaty will soon be revised to clarify that it can be invoked only if one of the signatories has been "invaded" by a third country, not merely if it has been "attacked" or finds itself in a state of war, as the present language stipulates.

South Korean trade missions to perform consular functions (the South Korean Consular Department opened in late February) as de facto recognition—the most forthright comment to date from a Soviet Government official.

The Soviet–North Korean relationship is also troubled by other sore points:

- Moscov[ ]was annoyed by P'yongyang's refusal to send observers to the Soviet Pacific Fleet exercise in July 1989.
- The Soviet[ ]have been increasingly disturbed by the continual failure of P'yongyang to deliver exports to the USSR on time and retaliated last summer by temporarily suspending their exports of crude oil and coke to North Korea.
- According to *Pravda*, Soviet and North Korean journalists had a "frank" discussion in early November 1989 about Gorbachev's reforms, recent events in Eastern Europe, and other "contentious" issues. The *Pravda* account suggested that they resolved few, if any, of their major differences.
- The Soviet media have recently adopted a more evenhanded stance on the dialogue between the two Koreas—urging compromise on both sides while criticizing both P'yongyang and Seoul for a lack of sincerity at their bilateral talks.
- The Soviet media also have criticized P'yongyang's refusal to sign the safeguards agreement to the Nuclear Non-Proliferation Treaty and the negative North Korean reaction to the reforms in the USSR and Eastern Europe.

- Soviet newspapers and radiobroadcasts—including those in the Korean language, which presumably are aimed primarily at listeners on the Korean Peninsula—have indirectly ridiculed the cult of personality around Kim Il-song and Kim Chong-il, his son and designated successor. The Soviets have long been uneasy about the designation of the younger Kim as successor and are now showing concern about his performance. [redacted]

At the same time, Moscow is likely to continue providing limited military assistance to P'yongyang to shore up the Soviet–North Korean relationship or at least keep the Kim Il-song regime from feeling so isolated and paranoid that it makes a new attempt to reunify the Korean Peninsula by force. Arms sales to P'yongyang also are likely to give Moscow some influence with whatever regime succeeds Kim Il-song. These shipments seem to be a key part of the dual-track strategy Moscow is pursuing. The Soviets probably still view military aid as the best card they can play with P'yongyang, but they also seem convinced that the best long-term solution would be for Washington to respond positively to their proposals for a bilateral moratorium on military shipments to the two Koreas. The Soviets seem to believe that such a moratorium could help improve Soviet–South Korean relations by alleviating Seoul's concerns about Soviet arms deliveries to P'yongyang, and that by reducing the military threat the North Koreans perceive from the South, it could enhance stability on the Peninsula.

Readjusting Priorities in Southeast Asia

Economic considerations also have been a major factor behind the shift to a more pragmatic approach in Southeast Asia, where the Gorbachev leadership has adopted a more cost-conscious policy toward Hanoi and stepped up its efforts to woo most non-Communist countries in the region—many of which remain staunchly anti-Communist. Simultaneously, Moscow is continuing its basic strategy of recent years, which has sought to present the USSR as a force for peace and stability in the area—for example, by supporting a settlement of the war in Cambodia, a dialogue between the Indochinese and ASEAN states, and the proposed creation of a Southeast Asian nuclear-weapons-free zone.

Expanded contacts with several non-Communist states in Southeast Asia, the recent improvement in Sino-Soviet ties, and the Soviets' cost consciousness regarding their expensive clients have made the Hanoi connection much less important in Moscow's eyes. Now that the Vietnamese have withdrawn their combat forces from Cambodia, we expect the Soviets to cut their military assistance to Hanoi. The USSR has already informed the Vietnamese that military aid will be cut by about one-third starting in 1991, according to unconfirmed press reports.

The Soviets also have informed Hanoi that financial support for its next five-year plan beginning in 1991 depends on how much progress it makes with domestic reforms. Although gross levels of Soviet economic assistance remain fairly constant, Moscow has already begun pressuring Vietnam to fulfill most of its export commitments to the USSR—the new trade protocol calls for Hanoi to send 1 billion rubles' worth of goods to Moscow in 1990, up substantially from the 400-million-ruble level in 1988—and the net amount of Soviet economic aid will therefore certainly decline. [redacted] stated in December 1989 that Moscow will no longer grant automatic trade credits equivalent to two-thirds of Hanoi's annual trade with the USSR. [redacted]

[redacted]

At the same time, the Soviets have been taking a more active role in the diplomatic maneuvering on the Cambodian issue—pushing Hanoi and Phnom Penh toward more flexibility on such matters as UN involvement and advocating reciprocal measures in discussions with the United States, regional actors, and, especially, China. Although the completion of the Vietnamese troop withdrawal from Cambodia and the normalization of Sino-Soviet ties have left Moscow with less incentive to pressure its clients to make further concessions on such crucial issues as internal

power-sharing arrangements, the Soviets realize that continued civil war and their ongoing military assistance will damage their relations with ASEAN countries and could lead to renewed strains with Beijing. Tactically, the Soviets will take the high road by urging an agreement to end military aid to all Cambodian factions and insisting that some aspects of a settlement must be worked out by the Khmer factions themselves, while trying to make Prince Sihanouk and his Western backers responsible for limiting the Khmer Rouge role in any power-sharing arrangement.[1]

The Soviets probably believe a settlement in Cambodia will eventually make it easier for them to make inroads with the ASEAN states and other Southeast Asian countries that are seeking to diversify their markets and to take a more balanced position vis-a-vis the United States. The USSR's inability to produce the sophisticated, high-quality products desired by these countries will limit bilateral trade, but Moscow has already stepped up its efforts to court them:

- Prime Minister Ryzhkov made a weeklong trip to Thailand, Singapore, and Australia in mid-February, marking the highest level Soviet visit to any non-Communist countries in Southeast Asia. Although Ryzhkov [redacted] was criticized for being away from Moscow at this time, given the press of urgent business there, a [redacted] the Prime Minister would be able to defend his absence with the discovery, especially in Thailand, of potentially large savings through direct deals with Asian producers of goods the Soviets had previously bought through European middlemen. During his stop in Australia, Ryzhkov also concluded a long-term commodities agreement that includes Soviet fishing access to Australian ports and limited Aeroflot landing rights.

[1] The Soviets and Vietnamese support the current Cambodian Government in Phnom Penh headed by General Secretary Heng Samrin and Prime Minster Hun Sen. The resistance coalition comprises three factions: the Communist Khmer Rouge, the non-Communist Khmer People's National Liberation Front (KPNLF), and the Sihanoukist National Army (ANS). The Khmer Rouge is backed by the Chinese. The non-Communist KPNLF and ANS are backed by ASEAN and the West, but also get some military assistance from Beijing.

- Soviet naval ships took part in an "international royal fleet review" in May, which marked the first Soviet naval visit to an ASEAN country.

- President Soeharto visited Moscow in 1989, marking the first Indonesian presidential visit to the USSR in 25 years.

- The Soviets opened an embassy in Papua New Guinea in March, their first resident mission in the South Pacific.

Outlook

A thorough review of their prospects in East Asia is likely to prompt the Soviets to focus on improving relations with Japan, the one country in the region where the relationship falls short of Moscow's expectations. Although the Soviets seem to be looking for ways to defuse the Northern Territories dispute without giving up the disputed islands, Gorbachev may well be prepared to return all of the contested islands eventually if the Japanese Government shows a willingness to make significant economic and security concessions. He knows that it will take the return of all four islands to achieve the kind of diplomatic breakthroughs that have characterized his policies toward the United States and Europe.

If Moscow decides to return the Northern Territories, its initiative is likely to take one of two forms:

- A "phased" return. This option could begin with returning Shikotan and the Habomai Islands, which are not occupied by Soviet forces—and could conclude after a period of several years. It might involve the phased withdrawal of troops from Kunashiri and Etorofu. We believe such a proposal would be acceptable to Tokyo, and it would have both practical and political advantages for the Soviets. They would have more time to manage the details of resettlement and to make regional military adjustments. Progress in reversion could be tied to agreed benchmarks in Japanese economic assistance.

- Proposal of a full return of the islands within a short, well-defined time frame. This proposal would be preferable to the Japanese and would probably be easier for Soviet military leaders to accept than a "phased" return, because it would not require them to maintain a token military presence on the disputed islands for any length of time. It would have the disadvantage, however, of committing the Soviets without their being able to verify the sincerity of Japan's quid pro quo

An agreement on the Northern Territories would yield tangible political benefits for the USSR that would have implications for US policy. It would foster a more positive image of the Soviet Union in the eyes of the Japanese public and enhance Moscow's credibility as a responsible political and economic player in East Asia.

We believe Moscow will agree to establish diplomatic relations with South Korea, by the end of 1990. As is the case with the Northern Territories issue, however, Gorbachev wants something from Seoul in return—a substantial increase in economic ties. At the same time, Moscow is likely to make a greater effort to promote a dialogue between North and South Korea this year, especially on military CBMs for the Korean Peninsula, and to urge the United States and Japan to expand their contacts with P'yongyang—seeking to establish the USSR's bona fides as a peacemaker on the Peninsula

The establishment of formal diplomatic relations with South Korea, which already ranks as the USSR's third-most-important non-Communist trading partner in the Asia-Pacific region, almost certainly would make it easier for Moscow to acquire South Korean technology and capital for the Soviet economy. Soviet policymakers might also anticipate that a warming of relations with South Korea would improve Moscow's image in the region and encourage some Asian countries to reconsider their existing security arrangements, especially those with the United States. Over the longer run, public sentiment could strengthen in the South for Korean neutrality and for a withdrawal of US forces from the Peninsula if Soviet arms deliveries to the North declined as Soviet–South Korean relations normalized and economic ties expanded

Even without full diplomatic relations, we expect Soviet trade with South Korea to grow well beyond its current level of about US $700 million per year. In fact, it is likely to double within the next three to five years, eclipsing the amount of Soviet trade with North Korea in 1989. We believe Moscow will also make a major effort to persuade South Korean companies to circumvent COCOM restrictions on shipments to the USSR. Moreover, the Soviets' new trade office in Seoul should make it easier for them to tap South Korea's growing technological expertise despite Seoul's efforts to prevent COCOM-restricted items from reaching the USSR and to use South Korea as a backdoor source for US technology—at a lower price.

The unilateral force reductions in the eastern USSR seem to be proceeding on schedule, and we believe that Moscow will make additional positive gestures in the coming months. These could even include relinquishing its military base at Cam Ranh Bay regardless of whether the United States gives up its bases in the Philippines. The base at Cam Ranh Bay could easily be destroyed in wartime and has become less useful to the Soviets over the past few years, given their reduced out-of-area naval deployments. At the same time, they clearly have been reassessing their partnership with Vietnam, which has been a reluctant host to the Soviet forces stationed there

Gorbachev might believe that a complete withdrawal from Cam Ranh Bay would eventually force the

United States to reduce its military presence in the region—by making Manila and other Asian capitals less interested in security cooperation with Washington, and less willing to host US bases, grant access to US air and naval forces, or conduct joint exercises with US units. Soviet officials, journalists, and academics are already making a major effort to promote such sentiment throughout East Asia—especially in Japan and South Korea, as well as in the Philippines. A complete withdrawal from Cam Ranh Bay would also please Soviet budget cutters and remove a needless irritant to Sino-Soviet relations.

In an effort to force movement on regional security issues before Gorbachev's scheduled visit to Tokyo in 1991, Moscow might consider unilateral actions, a course that the Soviets clearly believe helped to advance their objectives in European security policies. In the Asian context, Moscow might announce a demilitarization of the Northern Territories or cut Soviet air and naval forces in the northwest Pacific region, especially those on Sakhalin. The announcement of self-imposed restrictions on Soviet naval movements in the region, especially of nuclear-armed ships, would be another option. Moscow also could announce a ban on Soviet antisubmarine operations in certain areas, or promise to give advance notification of all naval exercises in East Asia—including joint exercises with allies—and to issue invitations to regional observers. Gorbachev might calculate that one or more moves of this kind with "no strings attached" would help place pressure on the United States to accept his bid for talks on Asian security issues.

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Appendix